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Report Highlights:
China's fresh tomato production is forecast to reach 32.5 MT in MY 2006/07 driven by the unusually high domestic prices. Tomatoes for processed production are forecast at 3.9 MT in MY 2006/07, up 15 percent from MY 2005/06 as a result of increased acreage in Inner Mongolia. China's tomato paste production is forecast to reach 600,000 MT in MY 2006/07, while exports are forecast to decline to 525,000 MT as a result of limits on production and low stocks.

Includes PSD Changes: Yes
Includes Trade Matrix: No
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Executive Summary

China's fresh tomato production is forecast to reach 32.5 metric tons (MT) in MY 2006/07 driven by unusually high domestic prices. Tomatoes for processing are forecast to recover to 3.9 MT in MY 2006/07, up 15 percent from MY 2005/06 mostly the result of expanded acreage in Inner Mongolia. Post forecasts China's tomato paste production will be around 600,000 MT in MY 2006/07. Exports are forecast to decline to 525,000 MT in MY 2006/07 from 580,000 MT in MY 2005/06 because of limits on production and low stocks. Exports to Italy will decrease because of Italy's new rules discouraging tomato paste imports while exports to other European countries and the rest of the world will mostly increase.

Production

Tomatoes for Fresh Consumption Forecast to Reach 32.5 MT in 2006

China's production of tomatoes for fresh consumption is forecast to reach 32.5 MT in MY 2006, up 9 percent from MY 2005, driven by unusually high prices in 2006. According to Ministry of Agriculture (MOA) statistics, average wholesale prices in the first quarter of 2006 increased 76 percent from the same period in 2005 (see Wholesale Market Price Table). Market intelligence collected from Post's field visits in major tomato-producing areas revealed that the high prices are encouraging some acreage expansion and more inputs, such as fertilizer and labor, which will increase yields.

The unusually high prices are a result of the poor crop in 2005. Although official data is not currently available, Post estimates China produced 29.8 MT for fresh consumption in 2005, down about 5 percent from 2004 because of less planted acreage and poor weather in some of the major tomato producing provinces.

Although fresh tomatoes are produced in all provinces, the major tomato-producing provinces are Shandong, Xinjiang, Hebei, and Henan provinces, which account for about 55 percent of China's total production. Fresh tomatoes are available in the Chinese market year round. Depending on the season they are produced either in greenhouses, open fields, or plastic covers. Open fields accounts for 50 percent of the total tomato production, larger greenhouse production accounts for 40 percent, and small vinyl plastic covered growing areas account for 10 percent.

Tomatoes for Processing are Forecast at 3.9 MT in 2006

China's processed tomato production is forecast at 3.9 MT in 2006, up 15 percent from the estimated 3.4 MT in 2005, thanks to expanding acreage in Inner Mongolia. Industry sources indicate that processed tomato acreage in Xinjiang did not expand much in 2005, although processors hope to increase production significantly in MY 2006/07.

China's 2005 processed tomato harvest was poor because of reduced acreage and bad weather. Post estimates that in 2005, processed tomato acreage declined 25 percent from 2004, because of poor returns in 2004; prices to the farmers were low and payments were late. In addition, unusual bad weather in Xinjiang decreased yield. It was cold in sowing season and rainy in harvest season.

In 2005, both China's, and worldwide processed tomato production declined. USDA reports that Italian production of processed tomatoes in 2005 declined 17 percent from 2004. See GAIN IT5021.

As a result of worldwide production declines in 2005, the international price of tomato paste is up sharply. In the first quarter of 2006, the export price of China's tomato paste is up 10 percent from the same period in 2005. In response to high prices, China's tomato processors are pushing to expand production significantly in 2006, hoping to produce 4.5 – 4.8 MT of tomato paste. Post's less optimistic forecast is because of significant constraints on land use and weather variability. Further, Xinjiang farmers are not willing to expand tomato production because, relative to other crops, tomatoes have not provided a good return over the past two to three years. For many farmers, other cash crops such as cotton have had better returns. Additionally, this spring, Xinjiang's weather has not been good for tomato production, with a late spring snow, sand storms, and excessive temperature variability. The poor weather is expected to reduce tomato yields in 2006.

Xinjiang is the center of China processed tomatoes industry. Industry source indicates that Xinjiang produces more than 80 percent of China's total tomato paste. Xinjiang tomatoes are famous for their color and soluble solid content. This is in great part because Xinjiang, with its long hours of sunshine (2500-3500 hours per year), strong sunshine radiation, large temperature difference between day and night, and arid climate, is a perfect environment for tomato production.

Despite slightly less suitable climatic conditions, recently, tomato processors have begun tomato production in Inner Mongolia (neighboring Xinjiang). This is partly to hedge against poor weather in Xinjiang and partly because of Inner Mongolia's transportation advantages. Inner Mongolia's transportation is more convenient and cheaper than Xinjiang. Products can be directly delivered to Tianjin by trucks, where more than 70 percent of China's total exported tomato paste is shipped from. In Xinjiang, railway is the only available means of transportation. In addition, Inner Mongolia's farmers are more responsive to processors' push to expand production.

Farm Production Has Not Kept Pace with Processing Capacity

Tomato paste production is forecast to reach 600,000 MT in MY06/07, up 15 percent year-on-year thanks to expanding acreage in Inner Mongolia. China produces high dense tomato pastes (36-38 percent and 28-30 percent), of which 75 percent is exported in bulk packages (usually 220 L), 10 percent is reprocessed into low dense, small packages for export, and 15 percent is reprocessed for domestic consumption. Post forecasts exports of paste with low dense, small package will increase in the coming years, as processors seek higher profits. Industry sources say that one MT high dense paste in bulk package produces 1.5 - 3 MT low dense paste in small packages.

China's production capacity of tomato paste is estimated at one million MT, with actual annual production at 500,000-750,000 MT, depending on the quality of inputs. Paste production capacity has doubled in three years (2002-2005), while acreage expanded approximately 30 percent. Separately, China's tomato paste production industry is very concentrated; the top three Xinjiang based processors produce more than 80 percent of China's total paste. Xinjiang accounts for 80 percent of total production capacity, with Inner Mongolia accounting for 15 percent and other provinces 5 percent.

Consumption

Domestic Chinese demand for fresh tomatoes has been growing, and likely to continue to grow. Tomatoes are an important vegetable in the Chinese diet. Most tomatoes produced in China (except for Xinjiang) are consumed fresh. Tomatoes fried with eggs are perhaps China's most traditional tomato dish.

Tomato Paste Consumption Forecast to Increase

China's domestic paste consumption is estimated at 80,000 – 85,000 MT. Tomato paste is consumed in three ways in China: 1) as a condiment; 2) in processed foods; and, 3) as tomato sauce.

There are opportunities to expand domestic paste consumption, both because per capita consumption is extremely low, and increasingly consumers are learning about the positive health attributes of eating tomatoes. More promotion, training, and education activities would increase domestic tomato and paste consumption. Market intelligence shows that Tianjin, Beijing, Xi'an (Shaanxi Province) and Shanghai have the highest per capita paste in China.

Trade

Pesticides and Packaging Limit Fresh Tomato Exports

Pesticide residue problems and a low level of packing technology limit China's ability to significantly increase exports of fresh tomato. Pesticide residues keep China's fresh tomato out of markets like Japan, Korea and the EU. Perishability and the low level of packing technology also make it difficult to export China's fresh tomatoes.

China exported 85,929 metric tons of fresh tomatoes in 2005, about 0.25 percent of total production. Russia, Hong Kong and Vietnam were the top three export destinations of China's fresh tomatoes, accounting for more than 95 percent of China's total fresh tomato exports. Japan is the largest importer of Chinese vegetables, but does not import fresh tomatoes from China, mainly because of the pesticide residue concerns.

China does not currently import fresh tomatoes.

Tomato paste Exports Forecast to Decline to 525,000 MT in MY 2006/07

Tomato paste exports (H.S. 200290) are forecast to decline to 525,000 MT in MY 2006/07(July – June), down 9 percent from the estimated 580,000 MT in MY 2005/06, because of low production and low carryover stocks from MY 2005/06. China exported 582,300 MT of tomato paste in MY 2004/05.

Italy is the number one buyer of China's tomato paste, importing China's high dense paste for reprocessing and export to other European countries, Africa, Asia and the Americas. Tomato paste exports to Italy are forecast to decline, however, as Italy has responded to domestic industry pressure and implemented rules restricting paste imports from China. In July 2004, the Italian government passed a standard of identity for "tomato paste" ("passata di pomodoro") requiring it be made from fresh tomatoes. Previously, passata di pomodoro could be produced either by the direct processing of fresh tomatoes or by mixing dehydrated tomato paste with tomato sauce. See GAIN IT4013.

China's tomato paste exports to Italy have fallen since the new rule, from 119,782 MT in July-December of 2003, to 66,646 MT and 30,968 MT in 2004 and 2005, respectively. In addition to the product identity requirement, in March 2006, Italy made country-of-origin labeling mandatory on some tomato products (mainly tomato paste). The new rule, effective June 15, 2006, requires that producers label the country, and the area within the country of origin of the product.

The Chinese industry believes that Italy's rules will decrease China's paste exports to Italy. With good quality, competitive price, and rapidly expanding production, will continue to make

Chinese tomato paste a competitive international supplier of quality tomato paste. The below table lists China's top seven buyers of tomato paste.

Countries	2003	2004	2005	04/05 change
Italy	146,400	95,868	95,410	-1%
Russia	51,862	48,644	73,276	51%
Ghana	4,046	9,931	50,031	504%
Japan	28,427	33,245	43,089	30%
United Arab Emirates	9,901	22,532	35,552	58%
Saudi Arabia	5,854	10,586	20,826	97%
Iran	0	3,540	19,282	545%

China imports 600-800 MT of tomato paste annually, of which, more than 90 percent is from the United States. Although the quantity is quite small, with more and more foreigners living in China, and the rising Chinese incomes, there are still opportunities for U.S. paste exporters to expand into niche Chinese markets. United States' foods have very good reputation among Chinese consumers. Despite the higher prices, consumers with higher income often prefer U.S. products paste because of their reputation for consistent and high quality. Big cities with more foreigners and higher incomes are the major target market for U.S. tomato paste.

Policy

Subsidies and Preferential Policies Limited to Local Governments

No special government policies exist to encourage tomato production and processing. There are some preferential policies to support tomato production and processing in major producing provinces, however, including low interest loans and preferential tax treatment, such as tax exemptions and tax rebates.

On January 26, 2006, the Ministry of Agriculture (MOA) released its Announcement No. 604, stating that 202 agricultural standards would come into effect on April 1, 2006, including specifications for tomatoes (NY/T 940 – 2006), tomato paste (NY/T 956 – 2006), and tomato powder (NY/T 957 – 2006). Official documents for these standards are not yet available.

China completed its WTO accession tariff reductions for tomatoes and tomato products in 2005. There are no changes in the tomato and tomato products' tariff schedule.

Tomato and Tomato Products Import Tariff and VAT Rates for 2006				
H.S. Code	Description	Tariff	VAT	Export Drawback
070200	Tomatoes, fresh or chilled	13	13	5
20021010	Tomatoes, prepared or preserved, whole or in pieces in airtight containers	19	17	13
20021090	Tomatoes, prepared or preserved, whole or in pieces, other	25	17	5,13
20029010	Tomatoes, prepared or preserved, paste, in airtight containers	20	17	13
20029090	Tomatoes, Prepared or Preserved, Other	18	17	5,13
21032000	Tomato ketchup and other tomato sauces	15	17	13
Source: China Customs				

Marketing

Aggressive Marketing Will Help to Increase Domestic Paste Consumption

Active marketing activities will help to expand the domestic consumption of tomato products. Tomatoes are a traditional vegetable in China; most Chinese are in the habit of consuming fresh tomatoes. Processed tomato products are not as popular as fresh tomatoes in China, however. Activities that would promote consumption include more education on the health benefits of tomato products and more training on how to incorporate tomato products into the daily menu. Traditional media outlets including TV, magazine, Internet and newspaper articles would provide opportunities to promote tomato product consumption.

Statistics Tables

Table 1. Wholesale Market Prices for fresh tomatoes

Region	North	Northeast	Central	South	Southwest	West	China
Time	Monthly and quarterly average prices in USD per kilogram (RMB8.265 = US $1)						
January 2005	0.18	0.23	0.20	0.17	0.15	0.22	0.19
February 2005	0.23	0.28	0.20	0.18	0.15	0.24	0.21
March 2005	0.23	0.28	0.24	0.21	0.19	0.25	0.23
Avg Q1 2005	**0.21**	**0.26**	**0.21**	**0.19**	**0.17**	**0.24**	**0.21**
April 2005	0.27	0.26	0.28	0.25	0.21	0.29	0.27
May 2005	0.15	0.18	0.18	0.21	0.17	0.22	0.18
June 2005	0.09	0.13	0.11	0.17	0.15	0.13	0.12
Avg Q2 2005	**0.17**	**0.19**	**0.19**	**0.21**	**0.18**	**0.21**	**0.19**
July 2005	0.12	0.15	0.15	0.22	0.14	0.10	0.15
August 2005	0.14	0.15	0.18	0.22	0.17	0.12	0.16
September 2005	0.14	0.15	0.18	0.21	0.15	0.12	0.16
Avg Q3 2005	**0.14**	**0.15**	**0.17**	**0.22**	**0.16**	**0.11**	**0.16**
October 2005	0.19	0.19	0.24	0.24	0.16	0.17	0.21
November 2005	0.19	0.24	0.21	0.27	0.22	0.21	0.22
December 2005	0.27	0.31	0.28	0.31	0.25	0.26	0.28
Avg Q4 2005	**0.22**	**0.25**	**0.24**	**0.27**	**0.21**	**0.21**	**0.23**
Avg 2005	**0.18**	**0.21**	**0.20**	**0.22**	**0.18**	**0.19**	**0.20**
January 2006	0.47	0.51	0.41	0.35	0.29	0.51	0.43
February 2006	0.35	0.40	0.31	0.28	0.24	0.36	0.32
March 2006	0.37	0.43	0.35	0.29	0.27	0.38	0.36
Avg Q1 2006	**0.40**	**0.45**	**0.36**	**0.30**	**0.27**	**0.41**	**0.37**
April 2006	0.33	0.35	0.29	0.23	0.28	0.31	0.30

Table 2. Fresh Tomatoes PS&D Table

PSD Table						
Country	**China, Peoples Republic of**					
Commodity	**Fresh Tomatoes**				(HA)(MT)	
	2004	Revised	2005	Estimate	2006	Forecast
	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]
Market Year Begin		01/2004		01/2005		01/2006
Plnt For Fresh Consump	0	744400	0	729500	0	766000
Plnt For Processing	0	78000	0	58500	0	73000
TOTAL Area Planted	0	822400	0	792500	0	839000
Harv. For Fresh Cons.	0	744400	0	729500	0	766000
Harv. For Processing	0	78000	0	58500	0	83000
TOTAL Area Harvested	0	822400	0	788000	0	849000
Fresh Sale Production	0	30943000	0	29800000	0	32550000
Processing Production	0	4875000	0	3380000	0	3900000
TOTAL Production	0	35818000	0	33180000	0	36450000
TOTAL SUPPLY	0	35818000	0	33180000	0	36450000

Table 3. Tomato Paste PS&D Table

PSD Table						
Country	**China, Peoples Republic of**					
Commodity	**Tomato Paste,28-30% TSS Basis**				(MT)(MT, Net Weight)	
	2004	Revised	2005	Estimate	2006	Forecast
	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]
Market Year Begin		07/2004		07/2005		07/2006
Deliv. To Processors	4430000	4875000	4696000	3380000	0	3900000
Beginning Stocks	0	75000	0	163460	0	21250
Production	681970	750000	722500	520000	0	600000
Imports	830	760	750	790	0	800
TOTAL SUPPLY	682800	825760	723250	684250	0	622050
Exports	527800	582300	558250	580000	0	525000
Domestic Consumption	155000	80000	165000	83000	0	85000
Ending Stocks	0	163460	0	21250	0	12050
TOTAL DISTRIBUTION	682800	825760	723250	684250	0	622050

Table 4. Tomato paste exports (by Volume)

Metric Tons					
H.S. 200290					
Country	Jan-Mar 2005	Apr-Jun 2005	Jul-Sep 2005	Oct-Dec 2005	Jan-Mar 2006
Russia	11,161	20,374	24,214	17,528	31,419
Italy	29,046	35,395	24,738	6,230	17,039
Japan	9,379	11,408	11,391	10,910	10,141
United Arab Emirates	5,081	6,180	5,323	18,969	9,667
Saudi Arabia	3,241	6,212	3,696	7,678	8,978
Ghana	13,066	7,750	9,757	19,458	8,135
Romania	1,853	1,050	2,735	5,237	5,349
Ukraine	0	0	19	3,918	4,654
Philippines	2,741	4,478	4,287	1,751	4,320
Korea, South	2,817	4,334	2,634	3,929	4,099
Algeria	5,155	4,169	0	1,013	3,248
India	382	1,248	1,452	2,989	2,896
Poland	1,486	3,173	1,690	797	2,810
Nigeria	61	229	48	0	2,724
Yemen	2,256	2,223	2,252	4,439	2,642
United States	691	281	371	182	719
Others	60,634	56,014	37,276	52,274	51,274
Total	149,050	164,516	131,884	157,302	170,114